FINANCIAL INSTITUTIONS TODAY

News and topics of interest to financial institutions regulated by the Department of Banking and Finance

January 2018

Inside this issue:

Forward Looking Indicators and Emerging Risks

In an effort to apply lessons learned from the last financial crisis, regulators are working to identify and mitigate emerging risks. With that perspective, the FDIC's Winter 2017 Supervisory Insights, focuses on the topics of (1) Credit Management Information Systems (MIS) forward looking approach and (2) trends from Credit Surveys.

Credit Management Information Systems

Performance metrics including trends in charge-offs, delinquency ratios, nonaccrual loans, restructured loans, and adversely classified assets are an integral part of a credit MIS program; however, these are **lagging indicators**. Lagging indicators alone, during a cycle of new loan growth, are a weak metric as borrowers do not generally default immediately after a loan is disbursed. Additionally, poor underwriting practices can take time to manifest in performance ratios, particularly when growth inflates the denominator of those ratios.

Forward looking indicators, such as an increase in policy exceptions, an easing of underwriting standards, and higher concentration levels promote the identification of **emerging risks** and tend to be more predictive of future performance. For commercial loans, useful forward-looking information that is tracked by effective credit MIS programs includes portfolio stratification by loan-to-value (LTV), Debt Service Coverage Ratio (DSCR) policy exceptions, and loan grade migrations. For retail loans, effective credit MIS programs often track production and portfolio trends by product, credit score, LTV, debt-to-income, lien position, market, and property type, as applicable.

A report that tracks the volume of loan policy exceptions only over recent quarters may suggest a rather nominal exception rate; however, when measured over the longer term, those exception rates may be material. Credit MIS reports that rely heavily on averages to capture the level of risk may miss important aspects of the risks facing financial institutions. For example, using the average DSCR to conclude that a loan has strong repayment capacity ignores the fact that an average may include loans with inadequate DSCRs that pose direct risk of loss to the financial institution.

Credit Survey Highlights

While the Credit Survey results suggest that the level of credit risk is manageable for most institutions, the results also indicate the more forward-looking metrics are showing signs of increased risks at institutions. As lending has increased, so has the percentage of concentrations of credit, use of potentially volatile funding sources, and out-of-area lending. Studies following the 2008 crisis have shown that poorly managed commercial real estate concentrations, particularly in conjunction with a reliance on potentially volatile funding sources, were highly correlated with failure. As loan portfolios are growing and concentrations are building, the best time to focus on strong risk management practices is before financial metrics are adversely affected.

Agriculture Lending: Credit survey results report a rise in agricultural lending concentrations likely due to an increase in farmers' demand for financing. Farmers experienced several high-earning years early in this decade, which allowed many of them to self-finance operations. However, a drop in commodity prices has depressed farm income and producers' working capital levels, resulting in higher agricultural loan demand for many institutions. These institutions are susceptible to commodity price, weather, and land value volatilities. Therefore, it is important for institutions engaged in agricultural lending to maintain sound underwriting standards, strong credit administration practices, and effective risk management strategies.

FFIEC Announces Finalized Revisions to Streamline Call Report

On January 3, 2018, the Federal Financial Institutions Examination Council (FFIEC) announced that a proposal, originally issued in June 2017, to reduce the reporting burden associated with the preparation and filing of the Call Report has been finalized.

For small institutions, the finalized changes will remove, raise the reporting threshold for, or reduce the reporting frequency of approximately seven percent of the data items on the Call Report. Other burden-reducing changes are included for larger institutions. These changes from the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency will be effective as of June 30, 2018.

Additionally, several Call Report schedules will be revised in response to changes in the accounting for equity securities. The effective date of the changes involving the reporting of equity investments is March 31, 2018.

More information regarding the changes is available here.

NCUA Seeks Comments on Proposed Call Report Modernization

As part of a long-range effort to simplify filing of quarterly Call Reports, the National Credit Union Admiration (NCUA) is seeking public comment on proposed changes aimed at striking a balance between reducing burdens on credit unions and providing the information necessary for supervision and data analysis.

“Call Report data is essential to the NCUA’s operations, and reporting is a significant responsibility for credit unions,” NCUA Board Chairman J. Mark McWatters said. “The agency has undertaken a comprehensive review of the Call Report to modernize and increase efficiencies. We hope that credit union stakeholders will review the proposed changes and continue to provide comments on this important and significant project.”

The proposed changes would reduce the number of account codes in the 5300 Call Report by approximately 40 percent. Schedules would be reorganized, and instructions would be improved. A slide presentation summarizing the proposed changes is available online here.

The NCUA will ask credit unions to consider these questions as they review the proposed changes:

- Is this a reduction in the reporting burden?
- Are any account codes slated for retirement still pertinent?
- Are the relocated account codes grouped logically?
- Should any schedules be expanded to assist in analysis based on new rules or accounting changes?
- Are the instructions adequate?
- How much time will credit unions need to make changes in their systems to adapt to Call Report changes?
- Are the other operational issues the NCUA should be aware of prior to implementing the proposed changes?

Comments on the proposed changes must be received within 60 days of publication of the agency’s request for information in the *Federal Register*. The proposed forms and instructions the agency is considering, as well as other information about the Call Report modernization program, are available on the agency’s dedicated webpage.

Action on Applications for the Month

The following is a summary of official action taken on applications by Georgia state-chartered financial institutions under Title 7, Chapter 1 of the O.C.G.A. and petitions for certificate of incorporation of financial institutions and other matters of interest during the month of January 2018:

FINANCIAL INSTITUTION CONVERSIONS

PREVIOUS NAME	CONVERTED TO	APPROVAL DATE	EFFECTIVE DATE
Heritage First Bank (Savings Association)	Heritage First Bank Rome, Floyd County	Pending	

APPLICATIONS FOR DISSOLUTION

FINANCIAL INSTITUTION	APPROVAL DATE	EFFECTIVE DATE
State Bank of Georgia Fayetteville	Pending	
Southern Bank Sardis	Pending	

APPLICATIONS TO ESTABLISH A BRANCH OFFICE

FINANCIAL INSTITUTION	BRANCH OFFICE	APPROVAL DATE	BEGIN BUSINESS DATE
Affinity Bank Atlanta	Main Office 400 Galleria Parkway, Suite 900 Atlanta, GA 30339 Cobb County	07-19-2017	12-27-2017
Fidelity Bank Atlanta	Macon 4290 Hartley Bridge Road Macon, GA 31216 Bibb County	10-30-2017	01-25-2018
SunTrust Bank Atlanta	Mouse Creek 655 Paul Huff Parkway NW Cleveland, TN 37312 Bradley County	06-09-2017	01-12-2018
SunTrust Bank Atlanta	Morristown 230 Dr. Martin Luther King, Jr. Parkway Morristown, TN 37813 Hamblen County	06-09-2017	01-12-2018
Southern Bank & Trust Clarkesville	Dahlonega 81 Crown Mountain Place Suite A-100 Dahlonega, GA 30533 Lumpkin County	01-17-2018	
Metro City Bank Doraville	Marietta 4273 Roswell Road Marietta, GA 30062 Cobb County	04-11-2017	01-25-2018
Ameris Bank Moultrie	Mount Pleasant 349 Coleman Boulevard Mount Pleasant, SC 29464 Charleston County	01-22-2018	

Associated Credit Union Norcross	Villages of Ellenwood Lots 2A and 2B Villages of Ellenwood Town Center Ellenwood, GA 30294 Clayton County	01-22-2018
The Piedmont Bank Norcross	Blue Ridge 111 Collins Avenue Blue Ridge, GA 30513 Fannin County	01-04-2018
CORE Credit Union Statesboro	Main Office Lot 5, Market District Statesboro, GA 30458 Bulloch County	01-05-2018

APPLICATIONS TO CHANGE LOCATION

FINANCIAL INSTITUTION		CHANGE LOCATION OF	APPROVAL DATE	EFFECTIVE DATE
SunTrust Bank Atlanta		East Clearwater	07-17-2017	01-19-2018
	From:	2150 Cleveland Street Clearwater, FL 33765 Pinellas County		
	To:	2100 Gulf to Bay Boulevard Clearwater, FL 33765 Pinellas County		

FINANCIAL INSTITUTION MERGERS

SURVIVOR	MERGED INSTITUTION	APPROVAL DATE	EFFECTIVE DATE
Georgia's Own Credit Union Atlanta, GA	State Bank of Georgia Fayetteville, GA	Pending	
Members First Credit Union Decatur, GA	Piedmont Plus Federal Credit Union Atlanta, GA	Pending	
LGE Community Credit Union Marietta, GA	MECU Atlanta, GA	10-12-2017	01-01-2018
Ameris Bank Moultrie, GA	Atlantic Coast Bank Jacksonville, FL	Pending	
Guardian Bank Valdosta, GA	Pelham Banking Company Pelham, GA	Pending	

APPLICATION TO ACQUIRE A FINANCIAL INSTITUTION

BANK HOLDING COMPANY	TO ACQUIRE	APPROVAL DATE
Ameris Bancorp Moultrie, GA	Atlantic Coast Financial Corporation Jacksonville, FL	Pending

DBF Outreach and Upcoming Speaking Engagements

CBA of GA's Banker Regulatory Forum – Commissioner Kevin Hagler spoke at the Community Bankers Association's Banker Regulatory Forum on February 1, 2018, in Atlanta, Georgia.

State Bar of Georgia's Banking Law Program – Deputy Commissioner for Legal Affairs Oscar "Bo" Fears presented at the State Bar of Georgia's Banking Law Program on February 2, 2018, in Atlanta, Georgia.

2018 CBA Day at the Capitol – Deputy Commissioner for Supervision Melissa Sneed and Deputy Commissioner for Legal Affairs Oscar "Bo" Fears will be speaking at the Community Bankers Association's 2018 CBA Day at the Capitol on February 7, 2018, in Atlanta, Georgia.

Auburn University's Bank Directors' College – Commissioner Kevin Hagler will be participating on a Regulator Panel Discussion at Auburn University's Bank Directors' College on February 22, 2018, in Auburn, Alabama.

The Department is the state agency that regulates and examines Georgia state-chartered banks, state-chartered credit unions, state-chartered trust companies, and bank holding companies that own Georgia state-chartered financial institutions. The Department also has responsibility for the supervision, regulation, and examination of Merchant Acquirer Limited Purpose Banks chartered in Georgia.

In addition, the Department has regulatory and/or licensing authority over mortgage brokers, lenders and processors, mortgage loan originators, check cashers, sellers-issuers of payment instruments, money transmitters, and international banking organizations.

Our **Mission** is to promote safe, sound, competitive financial services in Georgia through innovative, responsive regulation and supervision.

Our **Vision** is to be a willing and able partner with our regulated entities in order to support vibrant economic growth and prosperity in Georgia.

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